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SUBJECT: Bank Leumi Privatization a Great Success for  
GOI

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Summary  
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11. (U) On November 15, in a dramatic success for the GOI's three-year-long privatization drive, the Cerberus and Gabriel private investment groups (also known as Barnea Investments), headed by former U.S. Vice President Dan Quayle, won the tender and purchased 9.99 percent of Bank Leumi from the government. Leumi joins Discount Bank (transaction not yet finalized) and Bezek as the most recent government-owned companies to be privatized. The privatization demonstrates the government's continued commitment to the economic reform program begun under former Finance Minister Netanyahu. Finance Minister Olmert and others have noted that the high price received for the shares represents a strong vote of confidence by foreign investors in the Israeli economy. Olmert also said that the proceeds of the sale will be used to reduce government debt, another major GOI objective. End Summary.

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Sale to Investors rather than the Public  
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12. (U) Early in 2005, former Finance Minister Netanyahu decided to privatize Bank Leumi, Israel's second largest bank with assets of USD 57.6 billion, by distributing shares to the public. Netanyahu suggested this method of privatization since he believed it would encourage public participation in the capital markets. The Governor of the Bank of Israel (BOI) Stanley Fischer and Prime Minister Sharon opposed public distribution on the grounds that it would be a bureaucratic headache. Furthermore, they wanted the revenue that would be generated by a sale to investors.

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What is Bank Leumi  
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13. (U) Bank Leumi has been in government hands for 22 years, since the Israel bank shares crisis in 1983. It owns a number of leading capital market and financial service companies, investment and insurance companies, as well as affiliates in the U.S., the U.K., Switzerland, and Latin America. Prior to the sale, 24.78% of the shares of the bank were in government hands. Following the sale, the shareholders of Leumi are as follows: The State of Israel 14.79%, Barnea Investments 9.99%, Eliahu Insurance Company 9.98%, Jewish Colonial Trust 4.86%. The public holds 60.17% of Leumi shares.

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The Deal  
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14. (U) The transaction is being touted as a great success, as the successful bidders offered a price that was 16% higher than the closing price of Leumi shares on the Tel Aviv Stock Exchange on the eve of the sale and 54% higher than the bank's equity. According to the terms of the sale, which was completed on November 25, the Group purchased 9.99% of the shares for USD NIS 2.475 billion (USD 525 million). The percentage purchased is under ten percent, which is the trigger point requiring both Israeli and U.S. regulatory approval, U.S. regulations being involved because the Leumi Group has a subsidiary bank in New York. The Group's option to purchase another 10.01 percent in the next eighteen months, will be subject to regulatory approval in both countries. If the Group decides to purchase the entire 20%, the price will be NIS 4.62 billion (USD 980 million.)

15. (U) Bank Leumi employees will receive benefits averaging NIS 50,000 - 70,000 (USD 10,000 - 15,000) from the deal. The period of sanctions and strikes before the announcement of this deal was relatively short compared to the longer period of worker unrest that preceded the Israel Discount Bank sale last winter. The agreement that the Leumi workers union reached with the Ministry of Finance (MOF) and

management several hours before the tender process began gave them the option to purchase close to 10 percent of the Bank's shares at a discount. The workers will also receive a bonus this year, which is the equivalent of one month's salary, on average.

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The Winner  
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16. (U) Cerberus, a hedge fund established in 1992, and with assets of USD 16 billion, is headed by Former Vice President Dan Quayle and CEO Steven Feinberg. According to press reports, Secretary of Defense Donald Rumsfeld invested in Cerberus in 2001, and financier Michael Steinhardt is a shareholder and the Director of the Finance Division of the fund. Some of Cerberus' investments include: Burger King, Warner Studios, Aozora, one of Japan's leading banks (formerly Nippon Credit Bank), real estate in the U.S. and Germany, Air Canada, and the National and Alamo car rental companies. Among the six other contenders in the tender were UBS, Citibank, and Deutsche Bank, which were interested in purchasing the shares as a short-term holding. The GOI had sold a 6.5 percent tranche of Bank Leumi shares to Deutsche Bank and 3.5 percent to Citigroup in July 2005. Both sold their shares on the Tel Aviv Stock Exchange (TASE) immediately after purchasing them.

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Olmert Pleased: Proceeds Will Reduce Debt  
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17. (U) Finance Minister Ehud Olmert said at a press conference on November 15 that this deal is an achievement for the Israeli economy, and specifically for the privatization process. He noted that "the sale of a large package of shares of a leading bank in Israel, at a record price, to a strategic investor, will strengthen competition among banks, and competition in the domestic capital market." He added that the policy of privatizing banks is an inseparable part of the large reforms in the capital market and the private sector. He called Cerberus-Gabriel a serious group that did not come to Israel in order to make a "quick exit." Olmert added that the management of the Group knows Israel very well and has plans to invest in the country for the long term. With regard to the proceeds of the sale, Olmert announced that they would be used to reduce the national debt. He told the Israeli business newspaper Globes on November 15 that "reducing debt is a long term investment and that this is a very important element of the economic infrastructure." He noted that this will enable the GOI to budget more funds for social purposes.

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Amir Peretz Reaction  
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18. (U) A November 13 Yediot Aharonot article quoted Amir Peretz as saying that "privatization has become an obsession with us." A day before the sale, Peretz said that he thought that Bank Leumi should remain a leading public body.

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Bibi Pleased  
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19. (U) Former Finance Minister Netanyahu enthusiastically supported the sale, saying that he is happy that the Leumi deal was completed during the term of his successor. He added that "the process of opening the banks to true competition was completed today for the benefit of all the citizens of Israel."

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Other Reactions  
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110. (U) Alon Glazer, a Banking Analyst at Leader and Co., told the Israeli business magazine The Marker on November 15 that the State received a very impressive price for the sale of the bank. He said that the privatization of the banking sector is good for the state. With that, he noted that the Cerberus Group is not well known in Israel, which could somewhat delay final approval of the deal by the BOI.

111. (U) Dr. David Klein, former Governor of the BOI, said in a November 15 Voice of Israel Radio interview that a hedge fund is not a strategic investor with long term plans. He said that a hedge fund generally buys and sells depending on the needs of its investors, and

usually does not hold on to investments for the long term. He noted that the BOI will take this into account before giving approval should the Cerberus Group decides to purchase the additional block of shares.

112. (U) Yediot Aharonot columnist Sever Plotsker wrote in an opinion piece on Ynet on November 15 that the purchasers of Leumi are a "secret investment fund, do not have an internet site, are not transparent, and are not listed on any stock exchange." He also noted that they do not have expertise in either American or foreign banking. Plotsker acknowledged that the government received a very good price for the sale of Leumi, but asked rhetorically whether this is the best thing for the citizens of Israel, whose formerly "Zionist" bank will now be owned by a "clumsy, complicated, and mysterious investment conglomerate."

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Comment  
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113. (U) The privatization of Bank Leumi marks the high water mark for the economic reform program of the Sharon government, which has helped bring Israel from a deep recession to a growth rate in the five percent range. The proceeds from this and other sales have increased the revenues available to the government and reduced the deficit. Regardless of the uncertainty about future economic policy as the country heads into elections next year, the new government will inherit an economy that is stronger than anytime in recent years and freer than it has ever been.

JONES